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INFO EUROPEAN POLITICAL COLLECTIVE IMMEDIATE

C O N F I D E N T I A L STATE 059967

SIPDIS

E.O. 12958: DECL: 06/11/2024
TAGS: [EFIN](#) [PGOV](#) [PREL](#) [ECON](#) [EUN](#) [IMF](#) [LG](#)
SUBJECT: DEMARCHE ON LATVIA,S FINANCIAL SITUATION

REF: A) RIGA 318 B) RIGA 314 C) RIGA 290 D) RIGA 238
E) RIGA 182

Classified By: EUR A/S Stuart Jones, Acting

BACKGROUND

1. (C/NF) The Department agrees with post,s assessment, Ref A, that the Latvian government,s (GOL,s) implementation of the terms of its IMF/European Commission assistance package thus far has been inadequate and that its pending proposals for budget cuts lack credibility. The time is right for the USG to make its concerns known at the highest levels of the GOL and to emphasize that the GOL must implement without delay a strategic plan to cut government expenditures in line with the criteria put forward by the IMF, as part of a medium-term strategy to achieve a budget deficit that does not exceed three percent.

2. (C/NF) The GOL plans to vote on its pending budget o/a June 17. In order to ensure that our message is heard in time to influence the final draft of the budget, we believe that post must approach the highest levels of the GOL as soon as possible to convey U.S. views.

TALKING POINTS

3. (SBU) The Department requests that Post draw on the background and points provided to communicate to the Latvian Prime Minister, Speaker of the Parliament, Justice Minister (as head of the People,s Party) and President the views of the U.S. government on Latvia,s financial situation.

4. (SBU) BEGIN POINTS:

-- The United States is concerned about the relatively slow pace of implementation of the structural reforms required by the agreements with the IMF, European Commission, and others. Since December, many plans have been announced but few implemented. We are longstanding friends and Allies, and we present these impressions out of a desire to help.

-- We support the goal of the IMF program, which is to set Latvia on a sustainable path to meet the Maastricht criteria so that it can join the Euro-zone.

-- We welcome the June 8 agreements between the GOL and social partners to cut an additional 500 million lats from this year's budget.

-- A strategic view is needed, not simply percentage cuts in various sectors. We strongly encourage you to work with IMF experts in country. Making budget cuts now will lend credibility to Latvia,s medium-term goals of reducing the annual budget deficit to three percent of GDP, successfully completing its IMF program, and adopting the euro. Establishing credibility for the medium-term outlook is key to maintaining confidence in the Latvian economy and limiting market speculation.

-- Financial markets have noticed Latvia,s reluctance to make hard decisions. While speculation about a future devaluation of the lat may overstate the situation, it is clear that if Latvia does not demonstrate the will to create significant wage deflation, external pressure to devalue will only continue to build.

-- Latvia may not have a lot of time. Opinions are crystallizing and markets reacting. Progress on needed budget cuts is needed now. It is essential that the government and Saeima adopt a strong, credible plan before going on summer recess.

15. (U) Please report responses by June 15, slugging responses for EUR/NB) Carol Beilman Werner and EEB/OMA) Julia Jacoby.
CLINTON